Measuring & Marketing Taxpayer Services:

Marketing and the Taxpayer - The Ontario Approach

Presented by

James A. Schauer, M.C.Inst.M.

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The Ontario Ministry of Revenue

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Presented by: James A. Schauer, M.C.Inst.M.,
Ontario Ministry of Revenue

Abstract

The Ontario Ministry of Revenue has for several years been deeply committed to superior customer service. In responding to taxpayer information needs, the Ministry was able to augment, clarify and simplify the understanding of its provincial tax and grant statute programs for its diverse clients. These measures have reduced client frustration and error, resulting in fewer processing exceptions, and raised the levels of voluntary compliance.

Marketing research and feedback methodologies are routinely employed in a wide range of applications. These applications involve personal interviews, focus group testing, mail and telephone surveys, in addition to reviewing internal and published records. Feedback covers as many diverse functional areas, ranging from media readership or audience analysis, user testing of tax forms, to soliciting taxpayer attitudes or their reaction to various administrative processes.

The identification of taxpayer information needs permits the Ministry to increase its communications effectiveness through improved targeting, designing tax forms that are more compatible with client preferences, and generally enhancing its positive relationship with Ontario taxpayers. In addition, the Ministry of Revenue has used marketing research to determine the customer profile for the Province of Ontario Savings Office - a financial institution with 21 branches operated by the Ministry, and evaluate new marketing opportunities and needs in Northern Ontario.

Every year the Ministry responds to over a million enquiries from its many diverse client groups. In 1989/90, over 620,000 telephone enquiries were processed by its central Taxpayer Information Centre alone. Program management information is obtained from periodic analysis of incoming calls, and made available to program branches. During the last three years, feedback analysis of budget-related calls has provided the Treasurer of Ontario with an early and reliable public reaction to his budget policy measures.

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Measuring & Marketing Taxpayer Service:

Marketing and the Taxpayer - The Ontario Approach

Presented by: James A. Schauer, M.C.Inst.M.

Why Marketing and Taxpayer Service?

You really must be wondering: "What on earth can a marketing specialist tell me about tax administration?" -- Tax administration deals with legislation, accounting, auditing, computer systems, with enforcement, collections, closure and with compliance. Yes, you cannot *'sell'* taxes; but then marketing is not selling either. Fine. As so often in life, things are not quite what they seem to be: We prefer to **think of marketing more as a business attitude that concerns itself with people.**

As tax administrators, you have developed your own language. You talk about compliance, you talk about vendors and sales tax, about businesses and capital tax, about taxing incomes - as if we all owned casinos. Today we know that even Casinos can go broke. You talk about corporations like geese that just need to have their feathers plucked - before they start hissing. And yet: "Who ultimately picks up the tab at the end of the party?" It's the consumers, the taxpayers - *it's PEOPLE,* people just like you and I.

We seem to think much less about the individuals at the end of the line: the taxpayer, your customers as people. Taxpayers are people and that means US, *people with real needs.* Too often we know very little about the taxpayers as customers or their needs. We also talk of "voluntary compliance", about "taxpayer service", or "customer service". **And yet: HOW can you serve people that you know very little or nothing about?**

In a competitive world, marketing on the other hand concerns itself largely with people; it concerns itself with people as customers, their needs and their wants. In responding to these needs with superior service, the successful business ensures that its clients are satisfied, so that they return again and again. A good business can command repeat business from between 30% and 50% of its clients. Good.

On average it costs five times as much to attract a new customer as it does to retain an old one. It therefore makes good sense to know and respond to the needs of your customer. **The taxation business can derive similar benefits from knowing and responding to the needs of its customers - the taxpayer - in an increasingly competitive world.**

The Need to know your Customers

It is difficult to manage a relationship, and serve your customers well, without knowing who they are. You can't manage what you don't understand. In a competitive market environment, the clients also have a choice: they can take their business elsewhere.

In government we have somehow grown accustomed to the notion that we are not driven by profit and have no competition. Yet, with growing pressures for more programs or services, and the need for more tax dollars to pay for them, how much time do you have before your best customers start to ask: *"Are we getting the best Bang for our Buck?"* or *"Isn't there a better way?"* -- Who hasn't heard of proposition 13?

To be able to serve your taxpayers as clients and provide "superior customer service", it is most important to understand who they are. You must know what motivates your clients, what their priorities and information needs are, their communications and information receiving habits. We also need to know who our competitors might be, and what the real purpose is for our being here.

The Taxpayer and Voluntary Compliance

Why do many taxpayers always respond in different ways to the same tax statute, instructions, forms or required timing? Even in the absence of dishonest intentions, this behaviour still represents non-compliance. It leads to processing exceptions, additional work load, follow-up action - ***and it slows down tax revenue flow.***

Regardless how skilled our auditors, administrators, lawyers or systems people -and at times even our communicators - are, it is extremely shortsighted to take the taxpayers' reaction to the logic of a new form for granted. What seems perfect logic to the administrators may become very confusing to the taxpayer.

Are we assuming too much uniformity? That all taxpayers are the same, with the same information needs? Or are we simply failing to communicate efficiently? Without the right answers, the deficiencies cannot be resolved effectively. *If we don't know the answers, we should be prepared to ask our customers to provide them.*

Marketing Research in Ontario

The Ontario Ministry of Revenue has since the mid-1970s been committed to superior customer service. By employing conventional marketing research and feedback methodologies, we have come to know many of our clients' concerns, their attitudes, and we have also been able to determine why they comply differently in some areas.

We now regularly market-test new taxation or grant application forms, and modify their design before committing them to print in large volumes. While the need for taxation may not be a popular one, by soliciting and responding to taxpayer needs, the impact of exceptions is clearly reduced. We also realize that we may not be loved, but at least we can be acknowledged as being accurate, considerate and fair with our clients.

The Ministry is currently undergoing a major systems support re-engineering program. Customer service plays a vital role in this project. External and internal feedback is routinely obtained, to ensure that improvements are mutually beneficial to both, the administrators and to our taxpaying clients. By employing the Juran Quality Improvement processes, we were recently able to improve the accuracy of our Taxpayer Services feedback reporting system. In addition, the Ministry of Revenue has employed marketing research to determine the customer profile for the Province of Ontario Savings Office - a financial institution operated by the Ministry, evaluated new marketing opportunities and unfulfilled savings service needs in Northern Ontario.

Getting to knowing our Customers: The Taxpayer

Getting to know our customers better is neither complex, nor particularly difficult. Just as in any other business, however, there are occasions when taxpayers - without wishing to deliberately break the law - do not comply with the rules. They file their returns late, use wrong legislative provisions, submit incomplete forms, pay insufficient amounts (rarely too much), or call us for help in growing numbers about provisions that have already been published.

Errors in accounting and production can be corrected privately; but errors in marketing, marketing research or mass media communications are highly visible. Who has not heard of the Coca Cola fiasco of a few years ago? The need for special care, however, should not become an excuse for failing to do the right thing. It is more important to get to **know your taxpayers and their needs!**

Satisfying the Taxpayers' Needs

Since we are dealing with the same people, be they consumers or taxpayers, the characteristics and priorities that apply to marketing also apply to tax administration. The relative Strengths, Weaknesses, Opportunities and Threats (classic "SWOT analysis"), and client attitudes that affect commercial operations also apply to ours; as such, they are relatively easy to translate and apply to our business. *What then are the taxpayers' needs to ensure optimum compliance?*

Starting from a premise that the majority of taxpayers are honest, law-abiding citizens or businesses, **their need usually focuses on empathetic, comprehensible, clear, concise and timely INFORMATION,** enabling them to comply in all respects with the statute. Specific needs may vary according to size of business, geographic location, and by industry sector. Through practical application of market research as a potent tool - or, if you prefer: 'Feedback' - **the tax administrator can benefit from a better understanding of taxpayers' needs.**

The Taxpayer Research and Feedback Function

The development of taxpayer research and feedback is not particularly difficult. It does, however, call for very careful planning, painstaking attention to detail and *a keen sense of dedication to the customer.* In a political environment, the public sensitivities are also high - increased by the recent proliferation of voters' intention polling.

In acquiring, processing and analyzing marketing data, biases are ever present, and considerable effort is required to neutralize their effects. To this end, the professional integrity of those involved with market research - whether done in-house or contracted out - is crucial. Yet, these concerns are no different from developing feedback in a competitive commercial setting, where you also do not want your competitors to see what you don't know, or discover what your intentions or future plans might be.

Taxpayer Survey Response Rates

Following several years as marketing vice-president in the air travel industry, and conducting research in both Canada and the United States - as well as in Britain - I have found there was very little difference in the *quality of response* to Ministry-sponsored survey projects in Ontario.

As a general rule, we found respondents extremely co-operative when asked for their help or reaction. We experienced few difficulties in obtaining a sample response of sufficient size for a meaningful analysis. To my early surprise, we generally found response rates to be considerably higher for some survey techniques, compared to private sector applications.

For instance, a private sector mail survey rarely exceeds response rates of 8% to 10%. With our Ontario Revenue Ministry applications, we experienced our *lowest average response rates of between 30% and 35%*, among clients who had filed objections to an assessment. Among other client groups, such as farmers, users of tax-exempt fuel and senior citizens, we *regularly achieved 55% as a first reaction response, which increases to 70% with a follow-up mailing* when needed. For face-to-face interviews, the experience parallels private sector experience, with average response rates between 40% and 45%, regardless whether done by our own staff or contracted out.

Survey Frequency and Timing

The conduct of market research projects represent an attitude reflecting management's commitment to its clients. Ideally, it is institutionalized, to become a vital part of the operational and communications interface with your internal and external clients.

In today's fast-paced environment, feedback obtained as part of a major initiative at intervals of ten or more years, is practically useless. Already the ten-year cycles for Census surveys both in Canada and the United States are spaced too far apart for most practical business planning. At the other extreme, Tom Peters in his PASSION FOR EXCELLENCE best described the concept of MBWA, or "Management by Walking Around":

Talk to your customers regularly, continuously, and keep in touch!

Small is beautiful! It is thus generally best to execute a series of smaller surveys, or break a large operation into smaller phases. Relatively low profile, this approach reduces the risk of cost over-runs and the potential for adverse criticism. The smaller feedback bundles are also easier to manage for best results. With these benefits in mind, Ontario has approached some or our projects - one such involving a multitude of coloured fuel users in the farming sector - in as many as four stages, each aimed at a different segment of the market, conducted over a period of 18 to 24 months.

Market research conducted at short intervals in small measures has many other benefits. Repetitive surveys conducted by different, often competing organizations, tend to lower response rates and respondents' interest. With more frequent, smaller surveys, their timing becomes less critical and even when badly mis-timed, the penalties are rarely severe. Smaller surveys also are more effective for tracking changes and trends; operational deficiencies can be spotted more readily with data obtained at short - say, 9 to 18 month - intervals, than less frequent and more costly, large-scale surveys generally permit.

Marketing Research as Basis for Customer Service Excellence

All of the following business functions can derive considerable benefit from marketing research. The actual effort involved may vary, according to the resources and time available. It is, however, more important to be motivated by a genuine desire to know our client and their needs, a keen interest and commitment to serve our customers to their satisfaction. *The taxpayers' satisfaction ultimately becomes the administrators' gain.* To summarize:

1. Identify your customers, both internal and external.
   Since it is impossible to serve the unknown customer well, the use of marketing research or feedback must be an essential integral part of superior customer service. The same attention and common courtesy given to the external customer must also be accorded to all internal clients.

2. Understand your customers' needs and prefcrences.
   Most tax lcgislation is difficult to comprehend at best, even among experts. What INFORMATION NEEDS does this situation create for the majority of honest, well-intentioned taxpayers, who may be confused in approaching their obligation?

3. Formalize two-way communications.
   Generally, communications often used as a one-way system: *to create awareness, to inform.* Yet, every time a taxpayer contacts us, their enquiries also provide valuable feedback.

   With a marketing orientation at work, this feedback *can be easily converted into a two-directional process that provides feedback to the administrator, the legislator, the politician - as well as satisfying the taxpayer's need for information.*

4. Manage the relationship with your customer.

The development of superior customer service cannot be left to a few 'specialists'. Managing the organization's relationship with the customer should involve everyone. *Caring should be encouraged.*

5. Support ongoing customer service initiatives.

Customer service excellence is too often taken for granted. To be effective, the relationship between business and its customers must be managed, carefully and continuously. Ask your customers what they think of your service.

In my own past experience, I have often been involved with evaluating associated businesses' - airlines and hotels - own perceived superior standards, only to *discover that their own clients or agents did not always share this perception in all respects.* The truth always came as a bit of a surprise!

Marketing Communications

Following analysis and creation of a needed service, the initial role of communications is to *create awareness.* Beyond creating awareness, the purpose of marketing communications is to be comprehensible and convincing to the identified target audience, leading it ultimately to ACTION to meet the identified need.

With marketing communications, the objective always is to motivate people into action, either to buy a product or service, to support a charity, commit to a political or religious cause - or in our business - to COMPLY FULLY WITH LEGISLATION. *In this regard, the 'selling' function does indeed support the marketing need.*

The business need for efficiency, whether driven by profit or spending constraints, demands accountability for all resources used in the pursuit of its objectives. This need requires reliable methods for determining discrepancies between business or marketing plans and the end results.

Depending on the business strategy followed, the critical result to be measured may be more than 'bottom line' in profit terms. It may be share or control of a market, a process or function, a composite of competitive features, such as 'customer service'. While these communications criteria reflect the complexity of today's business world, their fulfilment is no different in government usage.

Competition

Marketing is usually driven by competition. The absence of this competition in government produces a degree of *complacency in some areas, that can never be justified.*
Take publicity and communications, for instance:

- With marketing, competition offers customers a choice: *The option to take their business somewhere else.* Since the media itself is highly competitive, marketers use a targeted media mix to reach their market successfully - **but rarely access the entire market.**

- The government communicator, however, is faced with a much greater challenge. The taxpayers do not have the option of going somewhere else with their taxes, but they do have the option of who to pay first - **and the entire target market must comply, without exception!**

On the bright side, our forms and tax returns are most effective communications tools, but are we always taking full advantage of this medium? In the pursuit of optimum compliance, **the inefficient use of all available media contributes to non-compliance, processing exceptions or errors, and lower tax revenues.**

Practical Applications of Marketing Research

Marketing research is a most powerful tool available to the business manager and the tax administrator. Because of it potency, it should, however, never be taken lightly or misused (take note: Political pollsters).

Marketing research will not make your decisions for you. It will, however, provide a sound basis for improved planning, to reduce risks and to increase business opportunities, resulting in making better or more informed management decisions.

The Ontario Ministry of Revenue has employed all aspects of marketing research, covering individual taxpayers, corporations - their principals and accountants -, accounting firms, farmers, truckers, vendors, grant recipients and grieving taxpayers. The Ministry uses feedback to evaluate new administrative concepts, new tax return forms or changes to existing forms, taxpayer instructions, and obtains quantitative feedback from staff for internal projects.

Owing to the complexity of the business operation, it is difficult to take you through an entire marketing research application. I will, however, share with you a recent internal application of research used for data quality improvement, from problem identification, through improvement and end results.

Later I am quite prepared to share and discuss with you some other practical feedback applications we have experienced, from multi-media communications planning, media targeting, communications audits, to tax forms testing. The projects employ a variety of methodologies and tools, from face-to-face interviewing, focus group testing, observation, to mail and telephone survey techniques. A list of some recent projects undertaken is provided at Appendix 'A', on pages 12 & 13.

Quality Improvement of Taxpayer Feedback from Telephone Enquiries

During fiscal year 1989/90 the Ontario Ministry of Revenue processed over a million incoming telephone enquiries. As a customer information service initiative, the Taxpayer Services Branch alone handled over 620,000 of these calls, following an average annual growth of 40% over two years. Most of these calls, received from individual and business clients, from politicians, or their respective agents, cover a wide range of tax revenue and grant statutes.

Apart from serving the public with its enquiries, this volume of calls also presents the Ministry with a wealth of information about its various statutes. This data is captured, analyzed and presented to the statute branches administering the various revenue programs.

In addition, during the last three years, following each Budget pronouncement, all public reaction to the Budget was channelled into our multi-lingual Telephone Enquiry Centre. Data capture includes client reaction, by statute, type of client, language used; this data is entered into a data bank by the Program Information Officer (PIO), within seconds after each call is completed. During early tests, the resulting information enabled us to provide the Ministry with **early taxpayer feedback - fast and at relatively little cost.**

The value of the information appeared impressive at first sight and the project acclaimed an immediate success. Internally, however, staff was concerned about the absolute accuracy of data classification. Since the initial data resulted from telephone conversation, it was impractical to 'control' each call for accuracy.

Employing the Juran Quality Improvement (JQI) process, a sizeable sample was selected covering six working days. During this period, the incoming calls were monitored by a second PIO and the results recorded separately from the live transaction. By comparing results obtained from both sources, it was possible to establish an initial average error rate of 7.6% during June of this year, where previously an error-free operation had been assumed.

Analysis of results allowed the project team to identify an overly complex call classification system as the most probable cause for the unexpected high error rate. The system was modified in several significant ways, pre-tested, further modified, tested again and installed as a systems modification during July. Staff were re-trained in mid-August, with the new system going 'live' at the end of the month. After allowing time for adjustment, the same sampling and testing was employed again in October. First results were gratifying, confirming a reduction of the error rate to 2.6% -- **a 65% improvement.**

It was the project team's earlier impression that this residual error might not be reduced below 1.8%, since data entry became a secondary function in early September. The tests, however, proved this perceived limitation to be invalid, and further improvements are now being pursued. Based on data obtained thus far, further quality improvements are **expected to reduce the error rate further, in two stages during 1991, to 1.5% and under 1.0%, respectively.**

The Complexity of Business Operations

"No man is an island" (John Donne 1571-1631): The complexities of modern business are just as great as those found within tax administration. Both operations involve many people and functions, including the service or product, accounting, audit, data processing, legislation, communications, clients understanding and their willingness to buy or comply. To develop marketing research of feedback techniques, it is essential to recognize this complexity. In the end, however, it is a bit like the 'bad news', 'good news' analogy:

The Bad News is:

As my brief example illustrates, even with small projects, the business complexity makes it difficult to measure the performance of each individual communications function. It is harder to assess the contribution of each component part of the 'mix', its contribution to the whole, the opportunities for quality improvement, more efficient use of resources and their contribution towards increased revenue flow.

The Good News is:

Although the tax business is complex, and involves many people and processes, marketing research and feedback can produce very tangible, measurable results to benefit the tax administrator.

Not every project permits a single, continuous process solution. However, with a sensitivity for the taxation processes and the people involved, a creative approach and sound application of the principles of project management, marketing research, analysis, interpretation of data and presentation of information, *the impossible becomes possible.*

And looking ahead . . .

It is recognized that asking your customer has its limitations, if you cannot also deliver the expected services as well. Ontario's Ministry of Revenue - Ontario's tax-collection agency, functioning separately from its policy-setting Treasury - is currently embarked on ESPRIT, a major systems re-engineering program. **The taxpayer as customer continues to feature large in this undertaking.**

Growing use of state-of-the-art information technology will permit Revenue to serve its customers - and masters - even better in future. The use of information technology to point auditors in the most likely direction of non-compliance is expected to have a significant impact. Increased use of computers will help the Ministry nip compliance problems in the bud.

As our Deputy Minister, Dr. Terry Russell, recently stated: *"If you want to track thousands of situations - which can only be done with information technology - computers enable you to take very soft actions designed to tell customers that you have noticed."* Further non-compliance would meet with stronger action. -- In its role, the Ministry appreciates that **"we may not be loved, but at least we can be accurate, thorough and fair to our customers."**

Thank You.

Some recent and ongoing Ontario Marketing Research Projects

Some of Ontario's other recent case histories covering specific marketing research methodologies include the following:

1. Communications plan targeted at the Inter-jurisdictional carriers (IJCs) and coach tour operators, covering the Eastern US and Canada, involving
   - Market profile analysis, to determine individual IJC operators,
   - Readerships and communications habits to permit communications targeting - media audience research,
   - Research of travel habits, work hours - focus group test,
   - Provision of feedback and measurement - coupon,
   - Results Measurement and analysis.

   Result: 92% penetration of target market, at cost of $55,000; alternatively, mailing of tax information to universe of Canadian and US trucking industry (drivers, owner/drivers and corporations) was estimated at over $1 million in postage alone. Impact on compliance was reported as 'overwhelming'.

2. Interviews of corporation taxpayers, to test attitudes concerning compliance
   - client interviews with principals.

3. Corporations Tax Return (CT23) Revision, market testing of revised tax form
   - client interviews with principals, internal and external accountants.

4. Ontario Tax Grant (OTG) Recipients, market testing of revised grant application form
   - focus group testing to test advertising support,
   - mail survey among senior citizen clients.

5. Coloured fuel tax program, used market research to determine variations in compliance among users of coloured fuel users and non-users
   - mail survey to identify differences in compliance behaviour,
   - client interviews with farmers,
   - survey of equipment manufacturers,
   - focus testing of promotion booklet.

   Result: Desired compliance drastically improved, program erosion reduced.

6. Cigarette package and carton marking, introduction of new, highly visible (black on yellow) marking system
   - specification of design,
   - discrete focus group testing.

7. Special Small Corporations, non-compliance with returns and tax payment
   - interviews of principals, accountants, telephone interviews,
   - review of correspondence.

8. Retail Sales Tax Refund Claim Form, forms redesign
   - forms redesign and market testing.

9. Market Analysis and client surveys for the Province of Ontario Savings Office (POSO) a ministry-operated financial institution with 21 branches,
   - location visits, interviews, market analysis,
   - personal interviews with customers.

10. Quality Improvement: Internal review of error rates and their correction using JQI
    - personnel observation, client involvement.

11. In support of ESPRIT, a major Ministry-wide information systems re-engineering project
    - several market research projects to determine taxpayer attitudes concerning single taxroll, electronic data/funds remittance practices and customer service priorities,
    - internal feedback to identify opportunities, staff concerns, monitor attitudes to change.

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